

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Byron-Gaines Utility Authority	County Kent
Fiscal Year End 12/31/06	Opinion Date 03/28/07	Date Audit Report Submitted to State 04/16/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

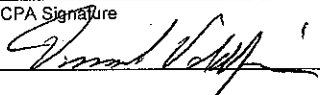
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	Not considered necessary	
Other (Describe)		<input type="checkbox"/>	No other documents required	
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number 269-381-4970		
Street Address 246 East Kilgore Road		City Kalamazoo	State MI	Zip 49002
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen, CPA		License Number 1101020724

Byron-Gaines Utility Authority
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Short year ended December 31, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Byron-Gaines Utility Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Byron-Gaines Utility Authority's operations over the fiscal year and its financial condition on December 31, 2006.

FINANCIAL HIGHLIGHTS

- The Authority's total net assets decreased \$48,147 (1%) as a result of this short year's activities.
- Total net assets, in the amount of \$3,378,783, were reported, of which \$3,366,032 is invested in capital assets. This leaves the Authority with unrestricted net assets of \$12,751.

Overview of the financial statements

The statement of net assets reports all of the Authority's assets and liabilities along with the difference between the two, which is identified as the net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Authority's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The statement of revenues, expenses, and changes in net assets shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Authority better off or worse off as a result of this year's activities?

The statement of cash flows presents the Authority's cash receipts and disbursements during the fiscal year, classified by principal sources and uses.

Funds

The accounts of the Authority are organized on the basis of funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority's funds are classified in two categories:

Operating Fund. This fund accounts for the expenses involved in providing utility operation and maintenance services to the constituent municipalities that are then charged fees to recover the costs of operation. This fund uses accrual accounting, which is the same method used by private sector businesses.

Fiduciary Fund. This fund is used to account for the resources held for the benefit of parties outside the Authority. The resources reported here represent an agency relationship and are not, therefore, available to the Authority to provide services to its customers. The Authority is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The Authority's fiduciary assets and liabilities are reported in a separate statement of fiduciary net assets - agency fund. This fund is also reported using accrual accounting.

The notes to the basic financial statements provide additional information that is necessary to understand the data reported in the financial statements.

Byron-Gaines Utility Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Authority's case, assets exceeded liabilities at the end of the fiscal year by \$3,378,783. The Authority's investment in capital assets (e.g., building, equipment, and vehicles), a component of the total net assets, amounts to \$3,366,032. The Authority uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs. The remaining net assets, in the amount of \$12,751, are unrestricted.

Condensed financial information
Net assets

	<u>December 31</u> <u>2006</u>	<u>June 30</u> <u>2006</u>
Current assets	\$ 243,146	\$ 209,968
Capital assets	<u>3,366,032</u>	<u>3,417,780</u>
Total assets	<u>3,609,178</u>	<u>3,627,748</u>
Current liabilities	<u>230,395</u>	<u>200,818</u>
Net assets:		
Invested in capital assets	3,366,032	3,417,780
Unrestricted	<u>12,751</u>	<u>9,150</u>
Total net assets	<u>\$ 3,378,783</u>	<u>\$ 3,426,930</u>

Changes in net assets. The Authority experienced a decrease in net assets of \$48,147 during the current fiscal year primarily because depreciation expense exceeded capital contributions. During the previous fiscal year, the Authority experienced an increase in net assets of \$43,646 that was primarily the result of significant capital contributions from the constituent municipalities.

The Authority's total revenues for the short year ended December 31, 2006 were \$551,924. Virtually all of the Authority's revenues come from its constituent municipalities. During the current year, the Authority charged \$528,228 for its services, received \$20,095 in capital contributions, and earned \$3,601 in interest on its bank deposits.

Byron-Gaines Utility Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The total cost of the Authority's operations amounted to \$600,071 in the short year ended December 31, 2006. More than 40 percent of the costs are personnel costs, while nearly 29 percent represents shop supplies. The costs incurred during the short year (six months) amounted to 54% of the costs incurred during the previous fiscal year (12 months) as would be expected.

Condensed financial information
Changes in net assets

	<u>December 31</u> <u>2006</u>	<u>June 30</u> <u>2006</u>
Operating revenues:		
Charges for services	\$ 511,969	\$ 1,010,797
Other	16,259	3,050
Nonoperating revenues:		
Capital contributions	20,095	143,058
Interest income	3,601	3,844
 Total revenues	 <u>551,924</u>	 <u>1,160,749</u>
 Expenses:		
Personnel	243,206	526,612
Supplies	178,024	262,275
Professional services	35,522	62,362
Utilities	18,281	42,635
Repairs and maintenance	17,542	23,749
Insurance	13,135	25,723
Depreciation	71,843	135,340
Miscellaneous	22,518	38,407
 Total expenses	 <u>600,071</u>	 <u>1,117,103</u>
 Increase (decrease) in net assets	 <u>\$ (48,147)</u>	 <u>\$ 43,646</u>

Capital assets and debt administration

Capital assets

The Authority's investment in capital assets as of December 31, 2006, amounts to \$3,366,032 (net of accumulated depreciation). Capital assets include utility system infrastructure, buildings, land improvements, shop and office equipment, and vehicles.

The net increase in capital assets amounted to \$20,095. This year's major capital events included the following:

- A new vehicle was purchased for \$18,945.
- Building remodel of \$1,150.

More detailed information about the Authority's capital assets is presented in Note 5 of the notes to the financial statements.

Byron-Gaines Utility Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets and debt administration (Continued)

Debt

The Authority had no debt at the beginning or end of the current fiscal year.

Economic condition and outlook

The Authority continues to rely on support from its constituent municipalities to finance all operating costs and capital acquisitions.

Contacting the Authority's financial management

This financial report is designed to provide a general overview of the Authority's finances to its customers and creditors, and to demonstrate the Authority's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Daniel Van Dyke, Manager
Byron-Gaines Utility Authority
1381 84th Street SE
Byron Center, MI 49315

Phone: (616) 971-0002
E-Mail: dl.vandyke@bgua.org

INDEPENDENT AUDITORS' REPORT

**Members of the Commission
Byron-Gaines Utility Authority**

We have audited the accompanying financial statements of the Byron-Gaines Utility Authority, as of December 31, 2006, and for the short year then ended, as listed in the contents. These financial statements are the responsibility of the Byron-Gaines Utility Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Byron-Gaines Utility Authority as of December 31, 2006, and the changes in financial position and cash flows for the short year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, on pages i through iv, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Siegfried Crandall P.C.

March 28, 2007

BASIC FINANCIAL STATEMENTS

Byron-Gaines Utility Authority
STATEMENT OF NET ASSETS
December 31, 2006

ASSETS

Current assets:

Cash	\$ 146,224
Receivables	<u>96,922</u>

Total current assets 243,146

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>3,366,032</u>
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Total assets 3,609,178

LIABILITIES

Current liabilities:

Accounts payable	59,418
Accrued expenses	24,977
Deposits	1,000
Advances from constituent municipalities	<u>145,000</u>

Total current liabilities 230,395

NET ASSETS

Invested in capital assets	3,366,032
Unrestricted	<u>12,751</u>

Total net assets \$ 3,378,783

See notes to financial statements

Byron-Gaines Utility Authority**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS***Short year ended December 31, 2006***OPERATING REVENUES**

Charges for services:

Charter Township of Gaines	\$ 238,665
Township of Byron	273,304
Other	<u>16,259</u>

Total operating revenues 528,228

OPERATING EXPENSES

Personnel:

Salaries and wages	183,102
Fringe benefits	60,104

Supplies:

Office	4,516
Shop	173,508

Professional services:

Legal	2,089
Other	33,433

Utilities 18,281

Repairs and maintenance 17,542

Insurance 13,135

Depreciation 71,843

Miscellaneous 22,518

Total operating expenses 600,071

OPERATING LOSS (71,843)

NONOPERATING REVENUE

Interest 3,601

CAPITAL CONTRIBUTIONS FROM CONSTITUENT MUNICIPALITIES

Charter Township of Gaines 10,048

Township of Byron 10,047

Total capital contributions from constituent municipalities 20,095

CHANGE IN NET ASSETS (48,147)

NET ASSETS - BEGINNING 3,426,930

NET ASSETS - ENDING \$ 3,378,783

See notes to financial statements

Byron-Gaines Utility Authority
STATEMENT OF CASH FLOWS
Short year ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 524,038
Payments to suppliers	(312,049)
Payments to employees	<u>(183,102)</u>

Net cash provided by operating activities	<u>28,887</u>
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**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Capital contributions from constituent municipalities	20,095
Acquisition of fixed assets	<u>(20,095)</u>

Net cash provided by capital and related financing activities	<u>-</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>3,601</u>
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NET INCREASE IN CASH	32,488
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CASH - BEGINNING	<u>113,736</u>
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CASH - ENDING	<u><u>\$ 146,224</u></u>
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**Reconciliation of operating loss to net cash provided by
operating activities:**

Operating loss	\$ (71,843)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	71,843
Increase in receivables	(690)
Increase (decrease) in:	
Accounts payable	34,603
Accrued expenses	474
Customer deposits	(2,000)
Deferred revenue	<u>(3,500)</u>

Net cash provided by operating activities	<u><u>\$ 28,887</u></u>
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See notes to financial statements

Byron-Gaines Utility Authority
STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund
December 31, 2006

ASSETS

Due from constituent municipalities	<u>\$ 110,880</u>
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LIABILITIES

Accounts payable	<u>\$ 110,880</u>
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See notes to the financial statements

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Byron-Gaines Utility Authority (the Authority) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

These financial statements include all the operations of the Authority, a municipal joint venture. The Authority was created under the provisions of Act 233 of the Public Acts of Michigan of 1955, as amended, through an agreement entered into by the Township of Byron and the Charter Township of Gaines on March 4, 2002. The purpose of the Authority is to acquire, own, construct, improve, enlarge, extend, maintain, and operate sewage disposal systems and water supply systems for the benefit of its constituent municipalities. Initially, it is the intent of the constituent municipalities that the Authority operate and maintain the sewage disposal systems and water supply systems located in and owned by the constituent municipalities. Capital expenditures are supported by contributions from the constituent municipalities.

The constituent municipalities have entered into contracts with certain nonconstituent municipalities for the furnishing of sewer and water service to utility systems owned by the constituent municipalities. The Authority, in a fiduciary capacity, collects money from the constituent municipalities and pays the nonconstituent municipalities for these services. This activity is accounted for in the Authority's Agency Fund.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to the constituent municipalities for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets and liabilities:

i) *Cash* - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) *Receivables* - All receivables are considered to be fully collectible.

iii) *Capital assets* - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	5 - 40 years
Buildings	40 years
Equipment	5 - 10 years
Vehicles	7 years

iv) *Compensated absences (vacation and sick leave)* - It is the Authority's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service. Vested compensated absences are accrued when earned.

e) Fiscal period:

In May 2006, the Authority approved a resolution to change the end of its fiscal year from June 30 to December 31. Accordingly, these financial statements represent the short year (six months) ending December 31, 2006.

NOTE 2 - CASH:

Cash, as presented in the accompanying financial statements, consists of the following:

	<u>Fund</u>		
	<u>Operating</u>	<u>Fiduciary</u>	<u>Total</u>
Deposits	\$ 146,124	\$ 110,880	\$ 257,004
Cash on hand	<u>100</u>	<u>-</u>	<u>100</u>
Totals	<u>\$ 146,224</u>	<u>\$ 110,880</u>	<u>\$ 257,104</u>

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - CASH (Continued):

Deposits with financial institutions - State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Authority will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. As of December 31, 2006, \$351,807 of the Authority's bank balances of \$551,807 was exposed to custodial credit risk because it was uninsured. The Authority believes that it is impractical to insure all bank deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES:

At December 31, 2006, receivables consist of amounts due from constituent municipalities that are due within one year.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the short year ended December 31, 2006, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Utility system insurable assets	\$ 2,516,823	\$ -	\$ -	\$ 2,516,823
Land improvements	120,018	-	-	120,018
Buildings and improvements	1,253,706	1,150	-	1,254,856
Shop equipment	93,276	-	-	93,276
Office equipment and furniture	50,549	-	-	50,549
Vehicles	150,842	18,945	-	169,787
Subtotal	<u>4,185,214</u>	<u>20,095</u>	<u>-</u>	<u>4,205,309</u>
Less accumulated depreciation for:				
Utility system insurable assets	(558,468)	(25,983)	-	(584,451)
Land improvements	(13,602)	(5,886)	-	(19,488)
Buildings and improvements	(89,919)	(15,949)	-	(105,868)
Shop equipment	(27,531)	(6,671)	-	(34,202)
Office equipment and furniture	(23,575)	(4,471)	-	(28,046)
Vehicles	(54,339)	(12,883)	-	(67,222)
Subtotal	<u>(767,434)</u>	<u>(71,843)</u>	<u>-</u>	<u>(839,277)</u>
Total capital assets being depreciated, net	<u>\$ 3,417,780</u>	<u>\$ (51,748)</u>	<u>\$ -</u>	<u>\$ 3,366,032</u>

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ADVANCES FROM CONSTITUENT MUNICIPALITIES:

The constituent municipalities provided advances, which represent a working capital reserve for the Authority that is to be equal to three months of budgeted direct expenses of the Authority.

NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN:

The Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. The Authority contributes 10% of each qualified employee's base salary to the plan. The Authority's contributions are fully vested immediately. The Authority is not a trustee of the plan, nor is the Authority responsible for investment management of plan assets. The Authority made the required contributions of \$16,810 for the short year ended December 31, 2006.

NOTE 7 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and medical benefits provided to employees. The Authority has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.